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Buying Strategies: Right Products, Right Places

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There are four profit-robbing inventory fails that can sink the ship: Wrong Stuff, Wrong Time, Wrong Amount and Wrong Place. Let's jump right into them:

Wrong Stuff
This is the one that causes the most trouble. If you can reduce buying the wrong stuff by half, you'll be well on your way to becoming a more effective merchant.

"There is nothing quite so useless, as doing with great efficiency, something that should not be done at all."—Peter F. Drucker

This issue was addressed in my article last month. (You'll find the article under the February issue at www.greenprofit.com.) Briefly, it requires knowing what type of business you have to understand what type of product to buy.

Wrong Time
Timing is everything. Timeliness and relevancy go hand in hand. Often among the famous last words of retailers are these: "We can sell at least half of it before we have to pay for it and the rest will be profit."

This is so wrong because if we sell only half we'll be able to pay only for the cost of goods. By the time we sell half of it, the selling season will be coming to a close and we're then hard pressed to move the rest of it at all, let alone to sell all of it before we run out of customers who would consider buying it at the full margin required to pay all of the bills and to have a profit. The elusive profit never occurs when it is delayed, because it is delayed.

There is a "half-life" of customer traffic that occurs each week, week after week until July or so when it fatally drops to a faint heartbeat. We simply don't have the amount of traffic necessary to make stuff go away if we've bought more than our customers can absorb or if we've run out of customers like we do as we near the 4th of July and December 24th.

Having merchandise before you need it is not so much a problem as having to pay for it before you can sell it is. The Merchant's Mantra from our Merchant Advantage program is: "Never buy what you can't sell before you have to pay for it."

A common problem among us retailers is buying more than we can sell before we have to pay for it. The enticing offer of extended dating is the most frequent culprit if we allow it to influence us to buy more than we can sell before the invoice is finally due. Going beyond the cost of goods, having merchandise on display too late into a season often means we bear the financial burden of excessive wages required to water, prune, fertilize, dust and to move it into and out of storage until the same time a year later.

Backorders are a contributing cause of excessive merchandise. Flowering trees, shrubs and perennials that arrive after their peak of blooming glory are difficult to sell. Imported goods arriving too late into a season, after too many of their potential buyers have come and gone until next year, are likely to be carried over until the same season a year later.

Wrong Amount

Having merchandise at the wrong time is usually locked arm-in-arm with having the wrong amount. Taking the steep descent over the revenue cliff that follows post-Mother's Day, is abrupt and painful.

Buying the wrong amount often occurs because history repeats itself when we failed to learn the right lessons the first time.

"That men do not learn very much from the lessons of history is the most important of all the lessons that history has to teach."—Aldous Huxley

We have the power and information at our disposal to determine the correct amount of an item to buy within a tolerance that we can adjust to for the normal ranges of weather. The average amount of an item we have sold in the past is a fairly good predictor of the amount that we should be prepared to sell during the same period this year and every other year.

A point-of-sale system isn't required to determine excessive buying. An accurately updated computer system provides the means to be more accurate on the amount sold. The information that's within a computer's memory bank is often not extracted for this purpose.

The supplier's records typically show the prior year's shipment, however, that too may have been excessive. A simple trip through our store (and storage areas) at the end of each season, snapping pictures of our displays provides a new lens through which to see our mistakes and visual record of overstocks. These must be subtracted from purchasing commitments to finally eliminate excessive purchases.

One last thought on the impact of having the wrong amount of merchandise: it may mean that we ran out of time and energy to focus on selling because we were distracted with stocking and displaying the excessive amount of merchandise.

Wrong Place

I have observed: “Customers cannot buy that which they cannot see, either now or later.”

While it seems like it wouldn’t be that difficult to get customers to browse your entire store, it’s also not as easy as wishing it would happen. Customers cannot buy what they cannot see. If our store layout doesn’t cause them to come into proximity of an item, or an entire category, we shouldn’t be surprised when we have to pay for that inventory before we can sell it.

Not only do customers need to see a product to decide to buy it, they also need to see it to decide to come back to buy it at another time. The visibility of a product has a direct correlation to future sales. The product is a marketing message in and of itself. The product itself can be your most effective marketing investment, provided you have enough traffic going past it and it is displayed well.

When we shop, we are distracted by thoughts, sometimes forgetting why we went into a store in the first place. Most of us have returned home without the very item that we went into the store to buy, but with an entire cartload of things that we didn’t set out for. A merchant has a power to guide us throughout an entire store, from one enticing display to another until we arrive at the checkout with everything they wanted us to buy in our cart.

Eliminating these four profit-robbing inventory fails leads us directly to having the Right Product in the Right Amount at the Right Time and in the Right Place.

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Good Deal vs. Too Good to be True?

Discounts and dating often present a false economy, lulling us into submission to the facts and an order we regret. Ask yourself:

Is it the wrong stuff?

Is it the wrong amount?

Is it the wrong vendor?

7 Tips for Best Buying Practices

1. Practice the Merchant's Mantra; "Buy only what you can sell (all of) before you have to pay for it."

2. Use your own paperwork. Use purchase orders.

3. Put a stop-loss on your worries. Make sure these phrases: NO SUBSTITUTIONS. DO NOT BACK ORDER. (Without Prior Permission) MAXIMUM FREIGHT ___%." are printed on your P.O.

4. Ask "Is this the best you do for anybody?" Find out what you have to do to do better. Suggest non-discount added value, such as free signage or display fixture, in-store staff training, free product, co-op dollars, etc.

5. Are you protected in writing with exclusivity in your immediate selling area?

6. Are you protected in writing with a minimum advertised price (MAP) policy?

7. Always be prepared and willing to walk away if the price, freight, delivery timing, payment terms or anything else is not to your favor. **GP**